

Message Text

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70

ACTION EUR-25

INFO OCT-01 IO-14 ISO-00 SWF-02 AID-20 CEA-02 CIAE-00

COME-00 EB-11 FRB-02 INR-10 NSAE-00 RSC-01 CIEP-02

SP-03 STR-08 TRSE-00 LAB-06 SIL-01 SAM-01 OMB-01

FEA-02 NSC-07 SS-20 NEA-14 H-03 L-03 IGA-02 XMB-07

OPIC-12 DODE-00 NIC-01 PA-04 PRS-01 USIA-15 DRC-01

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R 051834Z JUL 74

FM USMISSION EC BRUSSELS

TO SECSTATE WASHDC 7163

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY COPENHAGEN

AMEMBASSY DLBLIN

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY THE HAGUE

USMISSION GENEVA

USMISSION OECD PARIS

C O N F I D E N T I A L EC BRUSSELS 4948

PASS TREASURY, FRB,CEA

E.O. 11652: GDS

TAGS: EFIN, EC

SUBJECT: EC CREDITS FOR ITALY

A. ROME 9247

B. EC BRUSSELS 4422

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1. SUMMARY. EC COMMISSION SOURCES TELL US THERE IS A FAIR

CHANCE THE EC COUNCIL (FINANCE) WILL APPROVE CONSOLIDATION OF ITALY'S OUTSTANDING SHORT-TERM EC CREDITS INTO MEDIUM-TERM CREDITS AT ITS MEETING JULY 15 AN INFORMAL COMMISSION PROPOSAL FOR A LARGE-SCALE COMMUNITY BORROWING FROM THE MARKET--WITH THE PROCEEDS GOING TO ITALY IN TRanches DEPENDING ON THE RESULTS OF ITS STABILIZATION PROGRAM--IS GIVEN LITTLE OR NO CHANCE OF APPROVAL BY THE FINANCE MINISTERS AT THIS TIME OWING TO OPPOSITION FROM SOME OF THE MEMBER STATES. END SUMMARY.

2. EC COMMISSION OFFICIALS HAVE TOLD THE MISSION THAT THE EC COUNCIL(FINANCE)--WHICH MEETS JULY 15--WILL CONSIDER CONSOLIDATION OF ITALY'S OUTSTANDING EC SHORT-TERM CREDITS INTO MEDIUM-TERM CREDITS OF TWO TO FIVE YEARS. THE OUTSTANDING CREDITS OF 1.56 BILLION UNITS OF ACCOUNT (\$1.9 BILLION) ARE DUE IN SEPTEMBER AND CANNOT BE ROLLED OVER.

3. OUR SOURCES SAY THE MINISTERS WILL BASE THEIR DECISION ON A WRITTEN RECOMMENDATION OF THE EC MONETARY COMMITTEE, WHICH MEETS JULY 10-11 IN PREPARATION FOR THE COUNCIL MEETING. WE GATHER THERE IS A FAIR CHANCE THE COUNCIL WILL APPROVE CONSOLIDATION.

4. THE COUNCIL IS EXPECTED TO DISCUSS AN INFORMAL COMMISSION PROPOSAL FOR A COMMUNITY LOAN OF ABOUT \$5 BILLION IN TWO PARTS--THE FIRST UP TO 7 YEARS AND THE SECOND 10-12 YEARS. THE COMMISSION'S IDEA IS THAT THE COMMUNITY--THROUGH THE COMMISSIONS DIRECTIRATE GENERAL FOR CREDIT AND INVESTMENTS IN LUXEMBOURG--WOULD ARRANGE THE LOAN WITH A CONSORTIUM OF PRIVATE BANKS. THE PROCEEDS WOULD BE CREDITED TO THE EC BUDGET.

5. IT IS UNDERSTOOD BUT NOT REPEAT NOT SPECIFIED IN THE COMMISSIONS PROPOSAL THAT THE PROCEEDS OF THE LOAN WOULD GO TO ITALY IN TRanches, THE SIZE AND TIMING OF WHICH WOULD DEPEND ON THE RESULTS OF THE ITALIAN STABILIZATION PROGRAM.

6. THE FATE OF THIS PROPOSAL WILL DEPEND IN PART ON THE REACTIONS TO IT OF THE CENTRAL BANK GOVERNORS' COMMITTEE, WHICH MEETS JULY 8-9, AND THE MONETARY COMMITTEE. FEW OF OUR SOURCES EXPECT THEIR REACTION TO BE POSITIVE.
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7. AT A HIGH-LEVEL COORDINATING GROUP MEETING IN BRUSSELS JULY 4 IN PREPARATION FOR THE COUNCIL MEETING, ITALY AND FRANCE REPORTEDLY SUPPORTED THE PROPOSAL WHILE THE FRG AND BENELUX COUNTRIES WERE OPPOSED. THE UK WAS NONCOMMITTAL. OUR CONTACTS SAY THE FRG BELIEVES ANY LARGE-SCALE LOAN FOR ITALY'S BENEFIT SHOULD BE IN A LARGER CONTEXT THAN THE EC. BY THIS THE GERMANS ARE ASSUMED TO MEAN THAT--FOR POLITICAL

AS WELL AS ECONOMIC REASONS--THE US SHOULD BE INVOLVED.

8. ON BALANCE, OUR CONTACTS SEE VERY LITTLE CHANCE OF THE COMMISSION'S IDEAS FOR A LOAN BEING ADOPTED AT THIS TIME. ASIDE FROM THE KEY QUESTIONS OF FINDING THE RIGHT FORMULA FOR COMMUNITY "SOLIDARITY" IN RAISING THE LOAN AND DETERMINING HOW THE BURDEN WOULD BE SHARED OUT AMONG THE MEMBER STATES IF NOT PAID BACK, THERE IS A GENERAL RELUCTANCE TO MOVE TOO RAPIDLY. AT BEST, THEREFORE, COMMISSION OFFICIALS HOPE THE COUNCIL WILL GIVE THEM A GREEN LIGHT TO PURSUE THE MATTER FURTHER, ANY CONCRETE STEPS BEING RESERVED FOR LATER IN THE YEAR--PERHAPS IN THE CONTEXT OF AN EC SUMMIT.GREENWALD

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